

NSLDS II
Hi-Level Business Requirements
DRAFT

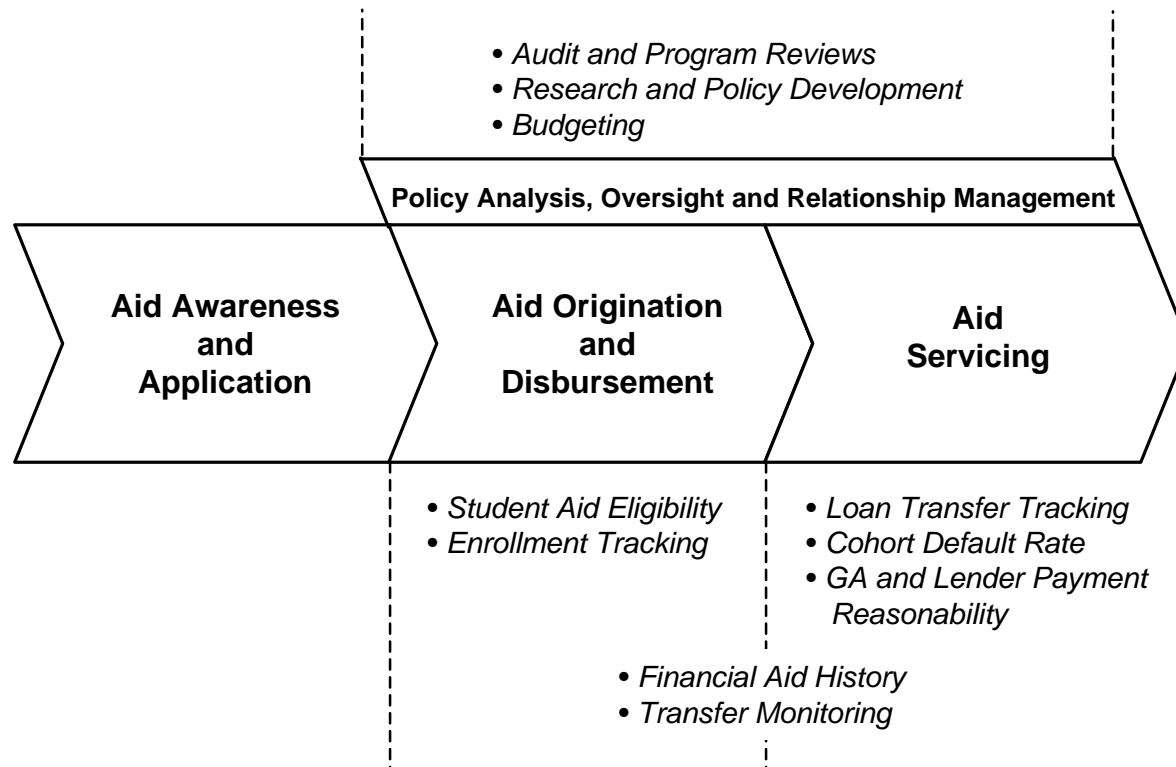
April 5, 2002

Setting the Context

- The major objective of this initial phase of the NSLDS reengineering effort has been to assess the viability of a “fetch” strategy that will provide for:
 - Direct access to provider systems for transaction-based functions such as determining student aid eligibility
 - Data marts with end-of-period data, aggregated to support analytics such as cohort default rates
 - Common record extensions needed to support the fetch strategy
- The viability of the fetch strategy is being assessed based on a number of factors including:
 - Business requirements that provide a compelling business case for “real time data at the right time”
 - Technical feasibility including performance, scalability and security
 - Value proposition for SFA (enhanced quality and reduced cost) as well as industry players
 - Compliance with NSLDS legal requirements in the Higher Education Act
- At our December 12th focus group meeting, we agreed that a clearer definition of the major NSLDS business requirements would be the logical next step in assessing the viability, and necessity, of the fetch strategy.
- This document represents our current draft of hi-level business requirements for a re-engineered NSLDS.

Student Financial Aid Delivery Process

Business Requirements Mapping



Summary of Major Requirements

Student Aid Eligibility *(Individual Loan Level Data)*

- Performance of both pre- and post-screening

Financial Aid History *(Individual Loan Level Data)*

- Assist students and schools in tracking the student's financial aid history
- Provide schools with flexibility to manage student access to data during loan origination

Transfer Monitoring *(Individual Student Level Data)*

- Monitoring a transfer student's financial aid history and alerting the current school of any changes

Loan Transfer Tracking *(Individual Loan Level Data)*

- Assist borrowers in locating lenders and GAs associated with their loans

Payment Reasonability *(Individual Loan Level Data)*

- Substantiate the fees and payments made to lenders & GAs

Cohort Default Rate *(Individual Loan Level Data)*

- Calculating draft and official cohort default rates

Enrollment Tracking *(Individual Student Level Data)*

- Assist schools in reporting student status changes correctly and in timely manner to the loan holder – GA or lender

Audit and Program Reviews *(Individual Loan Level Data)*

- Perform an audit or program review by examining GAs, servicers or schools to verify adherence to DoED policy

Research and Policy Development *(Aggregate Loan Level Data)*

- Research trends in support of short-term and long-term policy development

Budgeting *(Aggregate Loan Level Data)*

- Estimate seven-year budget and ad-hoc research

Data Freshness

- Current (best case, for post-screen)
- Current (best case)
- Current (best case)
- Current (best case)
- Aligned with quarterly or monthly payment cycles
- No more than 1 month old
- 6X per year
- No more than 1 quarter old
- No more than 1 quarter old
- No more than 1 quarter old

Fetch Strategy Summary

- The fetch capability offers a superior approach for meeting the following NSLDS business requirements
 - Post-screening for student eligibility
 - Loan transfer tracking
 - Transfer Monitoring
 - Financial Aid History
- Batch alternatives can meet these requirements if compromises are accepted to address risks of dated information
 - Two main types of compromises
 - Acting on dated information and then checking for mistakes when fresh information is available.
 - Delaying action until the batch process provides fresh data
 - Compromises can make sense when the costs of error, or the potential for error, is small
 - High cost example: disbursing funds for a recently ineligible student
 - Low cost example: neglecting to alert a borrower to a recently transferred loan
- More information needed to assess viability of fetch strategy, including:
 - How often do errors occur today (e.g., disbursements for ineligible students)
 - Customer service value of preventing potential errors inherent with using dated information
 - Incremental cost to implement fetch strategy relative to cost of expected errors from dated information

Data Mart Strategy Summary

- A data mart offers a superior approach for meeting the following NSLDS business requirements:
 - Cohort Default Rate
 - Audit and Program Reviews
 - Research and Policy Development
 - Budgeting
 - Enrollment Tracking
 - Payment Reasonability Checks
- Payment reasonability check requirements may be best met by merging the invoice process with the processes that will feed detailed data to the NSLDS data mart
 - E.g., Ask GAs to submit loan default records with the Form 2000 that requests default repayment
- NSLDS II data mart update strategy needs to recognize lender and GA systems as the official systems of record for most FFEL data
 - All updates should come from systems of record – end most direct updates to NSLDS
 - Practice of updating NSLDS independent of lender/GA source system perpetuates data integrity problems
 - A band-aid solution made necessary by delays and difficulties in getting updated data to NSLDS
 - Fetch strategy could help by providing immediate visibility when lender/GA/SFA system of record updates occur, without waiting for the data to reach NSLDS
 - Need a means to periodically “refresh” NSLDS records with system of record information
 - Potentially enable periodic full replacement of NSLDS records as a supplement to the changes-only reporting used exclusively today.
 - Record replacement is a common method for refreshing data mart contents with system of record data
 - Recognition as systems of record may demand stronger edit rules in Financial Partner systems in cases where current edit rules cause justified NSLDS rejects today

Potential Areas for Further Discussion & Investigation

- Default Prevention Opportunities
 - Schools receive delinquency notifications from lender today. How do schools use this information, if at all, to help prevent defaults? Could school efforts be materially helped if integrated cross-lender delinquency information (by student or school) was available from NSLDS, a fetch strategy, or some other source?
- Lender Payment Reasonability checks
 - How can SFA best associate the detail loan data that lenders currently submit to GAs with the form 799 payment requests that lenders submit to SFA? Both the GAs and SFA need the detail loan data. Federal credit accounting rules appear to require that SFA establish more detailed substantiation for the FFEL debt and associated fees that SFA pays. Current data submissions seem to include most of the needed detail, but it is not tightly linked to SFA's FFEL accounting.
- Incidence and Cost of Post-Screening Errors
 - The Fetch Strategy seems to offer an opportunity to greatly reduce errors during the post-screening process. We need to determine how often such errors may occur due to a lack of timely accurate data. It would also be helpful to know the cost of such errors, i.e., how often do ineligible students default when a lack of timely data during post-screening allows aid to be granted erroneously.

Attachments

NSLDS II Hi-Level Business Requirements

Student Aid Eligibility

Function: Pre-Screening

NSLDS shall support the pre-screening of all Title IV applicants. This screening is done as the first step in identifying whether an applicant is eligible to receive any Title IV Aid. Before any aid is disbursed, applicants will undergo another screening (the “post-screening”)

Pre-screening is the process of identifying financial aid applicants (FAFSA) who:

- Are in default on an existing Title IV loan
- Owe overpayments on a Pell grant
- Have already borrowed the maximum amount allowed based on annual loan limits or aggregate loan limits (based on unpaid principal) for each loan type

Data Requirements:

Detail Level: Individual Loan

Driving Entity: Student

History: All Aid Received

Frequency of Use: Daily

Freshness of Data: No more than 1 month old *

Function: Post-Screening

NSLDS shall support the post-screening of all Title IV applicants. Post-screening is the process of screening applicants after pre-screening and prior to disbursement to validate or verify if any significant changes to their financial aid history may have occurred since pre-screening that may have an impact on their eligibility for Title IV Aid.

Data Requirements:

Detail Level: Individual Loan

Driving Entity: Student

History: All Aid Received

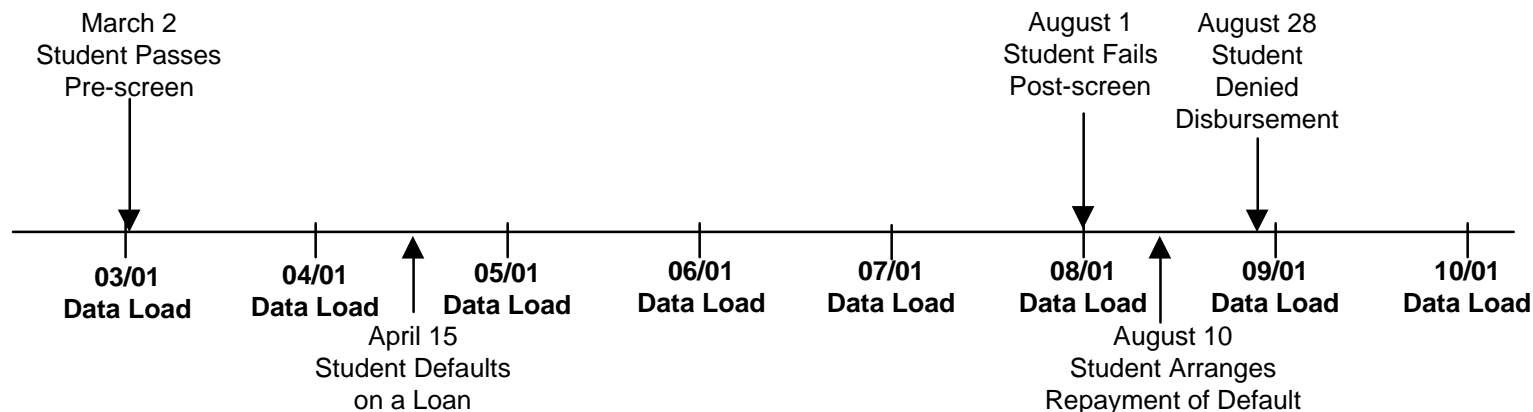
Frequency of Use: Weekly

Freshness of Data: Current *

* See post-screening scenarios and summary on next 3 pages

Student Aid Eligibility Post-Screening Scenarios

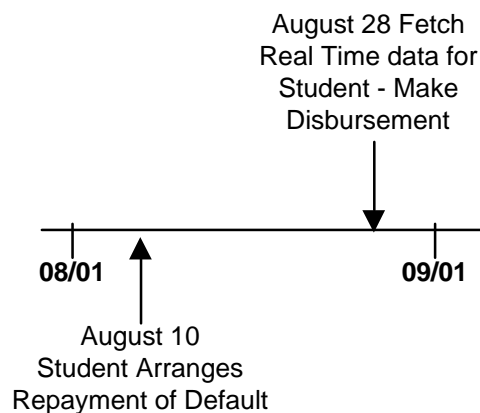
Disbursement Denied for Eligible Student – Current Process



In this scenario, the student defaulted on a loan and was subsequently denied a disbursement based on a post-screen. The student then made arrangements for repayment during the middle of the month in which the disbursement was scheduled. The data feed reflecting this arrangement did not enter the system until AFTER this disbursement denial took effect because the data feed is always scheduled on the first of the month.

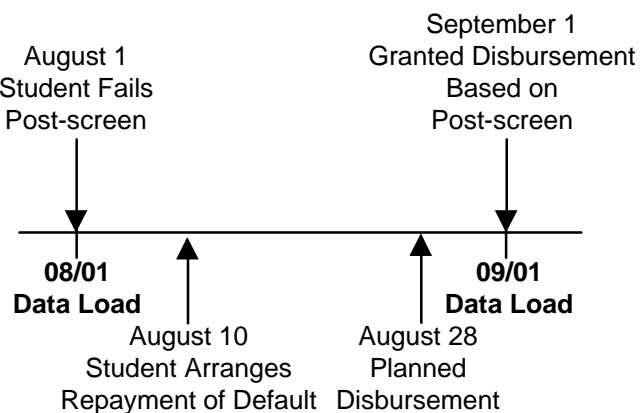
What Process Changes Can *Eliminate* this Problem?

Fetch Strategy



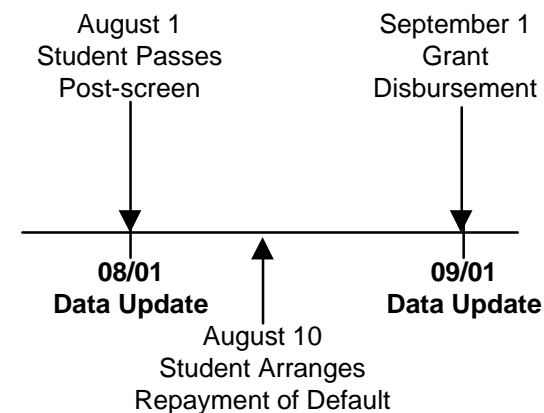
Rather than receiving quarterly / monthly feeds, simply fetch real-time data prior to major decisions, like disbursements. This also eliminates the need for the initial post-screen – in this case, on Aug 1.

Second Post-Screen Strategy



Re-screen the applicant when fresh data arrives but AFTER the disbursement is denied. This strategy presumes that SFA can quickly reverse a disbursement denial once the error is discovered.

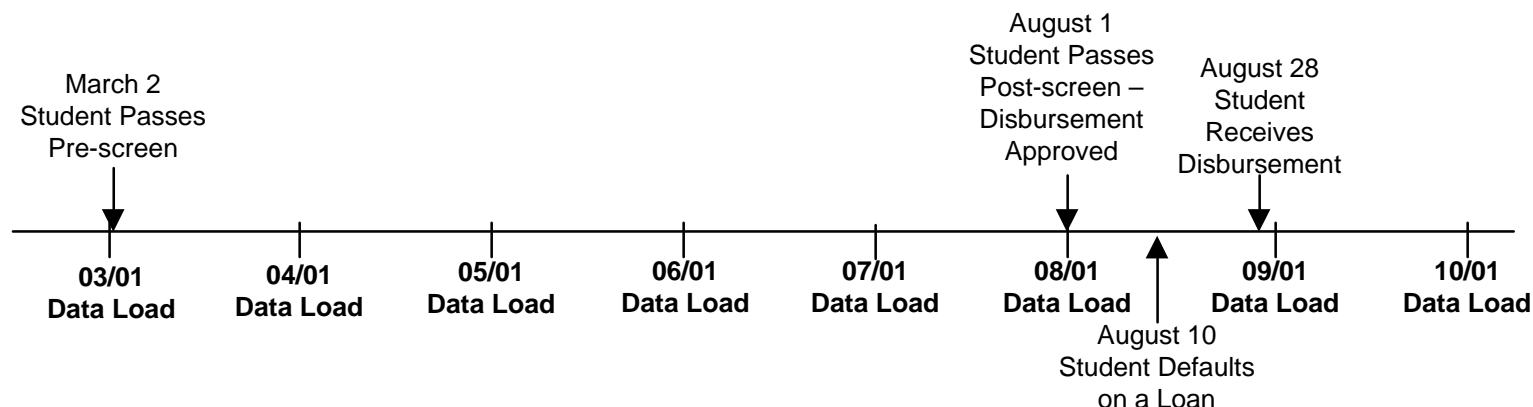
Timing Strategy



Delay disbursement decisions until fresh data arrives on 9/1. This method may match the accuracy of the fetch strategy but requires unacceptable customer service delays.

Student Aid Eligibility Post-Screening Scenarios

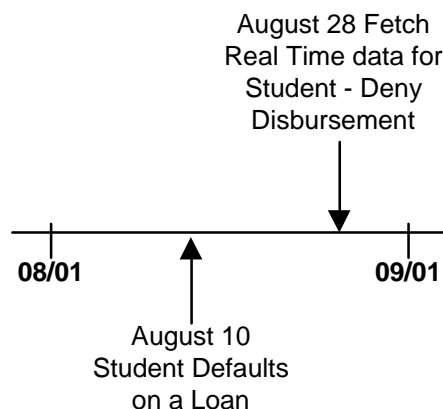
Ineligible Student Receives Disbursement – Current Process



In this scenario the student defaulted on a loan during the middle of the month of the new loan disbursement. The data feed reflecting this default did not enter the system until 9/1, AFTER this disbursement was approved. This scenario will be less likely since most students in this situation could use an in-school deferment to prevent default.

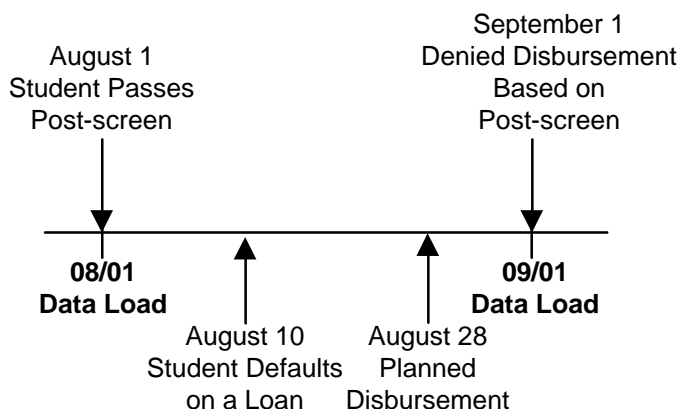
What Process Changes Can Eliminate this Problem?

Fetch Strategy



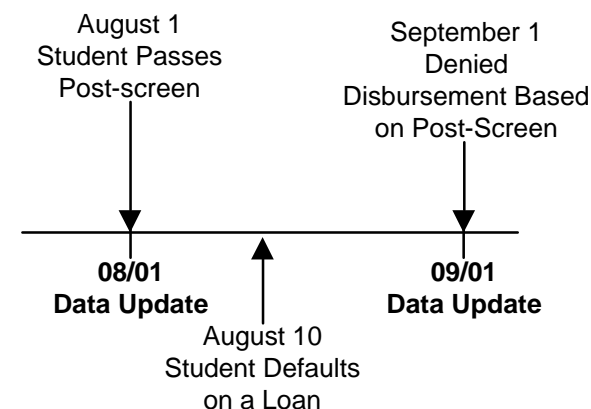
Rather than receiving quarterly / monthly feeds, simply fetch real-time data prior to major decisions, like disbursements. This also eliminates the need for the initial post-screen – in this case, on Aug 1.

Second Post-screen Strategy



Re-screen the applicant when fresh data arrives but AFTER the disbursement occurs. This strategy presumes that SFA can recall the funds when an errant disbursement is discovered.

Timing Strategy



Delay disbursement decisions until fresh data arrives on 9/1. This method may match the accuracy of the fetch strategy but requires unacceptable customer service delays.

Student Aid Eligibility Post-Screening Scenarios

Summary

- *Fetch strategy* offers the simplest and most accurate process with the best customer service
 - Validating eligibility at time of disbursement approval assures that the decision is based on the most current available data.
 - Eligible disbursements can be approved as soon as the requirements are met.
- *Timing strategy* offers equal accuracy but inferior customer service
 - Delays in disbursement processing while awaiting fresh data are unacceptable
- *Second Post-Screening Strategy* complicates processing but does not prevent errors
 - After-the-fact checking only finds errors
 - Errors are usually more expensive to correct than to prevent
- *Current Strategy* allows the errors to occur potentially undetected

Financial Aid History

Function: Financial Aid History

NSLDS will maintain a student's financial aid history, thus enabling schools and students to monitor changes over time. Using a student's financial aid history enables them to determine:

- Whether the student is in default or owes an overpayment on an SFA loan or grant
- The student's scheduled Pell grant and the amount already disbursed for the award year
- The student's balance on all SFA loans
- The amount and period of enrollment for all SFA loans for the award year

Schools need the flexibility to manage student access to financial aid history during loan origination.

This requirement includes the current NSLDS capability for a student to use the web to review their Title IV student aid history.

Data Requirements:

Detail Level: Individual Loan

Driving Entity: Student

History: All Aid Received

Frequency of Use: Daily

Freshness of Data: Current (schools and students want current data, not month-old or quarter-old data)

Transfer Monitoring

Function: Transfer Monitoring

Transfer monitoring is the process of monitoring a transfer student's financial aid history and alerting the current school of any changes – other than the default or overpayment information reported in the post-screening process – that may affect the student's current award(s). The transfer monitoring process is made up of three steps: inform, monitor and alert.

- Inform - the current school must notify NSLDS of transfer student
- Monitor – NSLDS will monitor these students for a change in financial aid history that may affect current awards and notify the school when:
 - New loan or Pell grant is being awarded
 - New disbursement is being made on a loan or Pell grant
 - Loan or Pell grant (or a single disbursement is) is cancelled
 - Student's aggregate totals change
- Alert – when NSLDS creates an alert for one or more students, it will also send an email notice to the school's designated contact person

Data Requirements:

Detail Level: Individual Loan / Student

Driving Entity: Student

History: None - New Transactions Only

Frequency of Use: Daily

Freshness of Data: Current (Schools prefer alerts when they occur, not when they get to NSLDS)

Loan Transfer Tracking

Function: Tracking Loan Transfers and Sales

Loan Transfer Tracking monitors transfer activity by maintaining dates of sale and names of loan holders. This information identifies likely problems with participants and helps evaluate the administration and billing by lenders and guaranty agencies in the FFEL loan program.

Tracking the transfer or sale of a loan from one entity to another also facilitates proper notification of the sale or transfer to the borrower. This action is the responsibility of the seller and buyer of the loan, or of the transferring parties. The seller and buyer must also notify the guarantor of the loan.

Data Requirements:

Detail Level: Individual Loan

Driving Entity: Loan Holder

History: 10 years (average loan life)

Frequency of Use: Daily

Freshness of Data: Current

(Based on requirement in the Higher Education Act that NSLDS shall “permit borrowers to use the system to identify the current (emphasis added) loan holders and servicers of such borrower’s loan.”

Payment Reasonability

Function: Default Payments to Guaranty Agencies

NSLDS will house data capable of substantiating default payments made to Guaranty Agencies. Both current regulations and direction from OMB require that detailed level data be collected and retained to substantiate these payments.

Default payments are made to GAs once a loan is defaulted and a claim has been paid to a lender by a GA. This compensation is monthly and is based on the submission an ED Form 2000.

Data Requirements:

Detail Level: Individual Defaulted Loan

Driving Entity: Multiple

History: All Aid Received

Frequency of Use: Monthly

Freshness of Data: No more than 1 month old

Function: Issuance and Maintenance Fee Payments to Guaranty Agencies

NSLDS will house data capable of substantiating issuance and maintenance fee payments made to Guaranty Agencies. Both current regulations and direction from OMB require that detailed level data be collected and retained to substantiate these payments.

There are two types of quarterly maintenance fees that the Department pays to GAs. These fees are 1) Loan Processing and Issuance Fees (LPIF) and 2) Account Maintenance Fees (AMF). The LPIF is calculated as the amount of disbursements for newly guaranteed loans held by the GA for the current quarter * 0.0065. The AMF is calculated as the original principal balance of open loans (i.e., the open loan guarantee amount) * 0.001 then divided by 4 to arrive at the quarterly payment. SFA calculates these fees based on detailed records that GAs currently submit to NSLDS each month.

Data Requirements:

Detail Level: Aggregated at the Loan
Level

Driving Entity: Multiple

History: All Aid Received

Frequency of Use: Quarterly

Freshness of Data: No more than 1 quarter old

Payment Reasonability

Function: Interest and Special Allowance Payment to Lenders

NSLDS will house data capable of substantiating Interest and Special Allowance payments made to Lenders in accordance with Federal credit accounting regulations. These regulations require SFA to allocate the costs of interest and special allowance payments to the fiscal year cohort, risk class, and loan types to which they apply. SFA is seeking a way to associate the loan level data submitted to NSLDS with the interest and special allowance payments so that these accounting requirements can be met.

Lenders submit ED Form 799 Quarterly to request payment of their interest and special allowance compensation.

Data Requirements:

Detail Level: Individual Loan Level

Driving Entity: Multiple

History: All Aid Received

Frequency of Use: Quarterly

Freshness of Data: No more than 1 quarter old

Cohort Default Rates

Function: Cohort Default Rate Analysis

Cohort default rate (CDR) analysis is the process of calculating and assessing draft and official CDRs and, as a result, assist in reducing the overall default rate for student loan programs. The CDR is defined as the percentage of a school's student borrowers entering repayment on FFEL or direct loans during a specific fiscal year who default on those loans during the same or following fiscal year. NSLDS will calculate draft, official and nominal CDRs for schools and/or lenders. Schools have the ability to request an on-demand report that details their potential CDRs based on data in NSLDS when the report is run.

A draft CDR is produced in March and a final CDR is produced in September. A school may challenge its draft CDR and may, in some instances, appeal or request an adjustment to its official CDR. A school with a low CDR may qualify for specific regulatory exemptions while a school with persistently or excessively high official CDRs may lose FFEL or direct loan eligibility. In addition to the draft and official CDR, ED calculates an unofficial notional CDR monthly to assist schools in monitoring their current rate on an ongoing basis.

ED also calculates and publishes FFEL CDRs for each lender and loan holder. There are currently no consequences associated with FFEL CDRs. However, the lender or loan holder can appeal its rates if it identifies discrepancies in the data.

Data Requirements:

Detail Level: Individual Loan

Driving Entity: School/Loan Holder

History: All Aid Received

Frequency of Use: 2X year, during
CDR cycle plus
monthly for notional CDR

Freshness of Data: Updated monthly

Enrollment Tracking

Function: Enrollment Tracking

NSLDS will support enrollment tracking, which is the process of assisting schools in reporting student status changes correctly and in timely manner to the loan holder – GA or lender. This information enables loan holders to perform the critical steps of placing a borrower into repayment grace periods and extending in-school deferments.

Status changes include the identification of borrowers who have:

- Withdrawn from school
- Transferred from one school to another
- Returned to school and is eligible for a deferment
- Continued in school and is eligible for a deferment extension

The Student Status Confirmation Reporting (SSCR) process is standardized by creating a single, consolidated roster – largely based on enrollment data from the National Student Clearinghouse - and by sending loan holders a consolidated enrollment status file of information about their borrowers.

Data Requirements:

Detail Level: Individual Student

Driving Entity: Student

History: All Student Enrollments

Frequency of Use: 1-2 times per term

Freshness of Data: Updated up to 6 times per year

Audit and Program Reviews

Function: Audit and Program Review Planning

Audits and program reviews are the process of verifying compliance with Department of Education regulations and as a good business practice to examine why poor default trend exist within a given institution. Audits and reviews are performed by ED and guarantors on lenders, servicers and schools. NSLDS will provide auditors and reviews with data on specific organizations to facilitate scheduling and maximize the effectiveness of reviews. The overall selection criteria for these biennial reviews are as follows:

Schools

- More than 20% cohort default rate in either of the last two years
- At the GAs discretion, review schools that:
 - Experienced a major increase or decrease in cohort default rate over the previous year
 - Are suspected of violating ED regulations based on supporting evidence

Servicers/Lenders

- Have 2% or more of the loan volume of FFEL loans guaranteed by the GA (by \$ volume)
- In the top 10 in loan volume (by \$ volume) for the GA
- Have \$10M or greater in loans held by the GA
- At the GA's discretion, review a servicer/lender that:
 - Experienced a major increase or decrease in CDR over the previous year
 - Are suspected of violating ED regulations based on supporting evidence

Data Requirements:

Detail Level: Individual Loan

Driving Entity: Financial Partners

History: 3 years

(to support CDR for past 2 years)

Frequency of Use: Daily/On Demand

Freshness of Data: No more than 1 quarter old

Research and Policy Development

Function: Internal and External Analysis

Internal and external analysis is the process of assisting internal (CFO, OIG) and external (CBO, GAO) users in performing research, policy analysis and performance assessment of Title IV aid delivery system participants and aid programs. NSLDS will provide data at varying levels of detail – ranging from focused queries about a single student or guarantee agency to queries requiring the aggregation of large amounts of data.

Data Requirements:

Detail Level: Individual Loan

Driving Entity: Multiple

History: All Aid Received

Frequency of Use: Daily/On Demand

Freshness of Data: No more than 1 quarter old

Function: Financial Partner and School Analysis

Financial partner and school analysis is the process of providing guaranty agencies, lenders, servicers and schools with reports for researching and assessing their own performance in administering FFEL aid programs. NSLDS will provide data to support this research, which generally aims at evaluating the effectiveness of specific organizations and program practices based on short-term and long-term perspectives.

Data Requirements:

Detail Level: Individual Loan

Driving Entity: Multiple

History: All Aid Received

Frequency of Use: Daily/On Demand

Freshness of Data: No more than 1 quarter old

Budgeting

Function: Budget Development

Budget development is the process of developing input for the President's budget – based, in part, on projected loan program costs for a seven-year period. NSLDS information will be used to develop reliable, sound forecasts and program estimates for the Department of Education budget.

Data Requirements:

Detail Level: Aggregated at the
Loan Program Level

Driving Entity: Multiple

History: All Aid Received

Frequency of Use: Annually, during
Budgeting Cycle

Freshness of Data: No more than 1 quarter old

Function: Budget Analysis

Budget analysis is the process of assisting SFA – in particular, the Analysis and Forecasting Division – in responding to budget-related questions from other entities within the Department of Education as well as OMB. NSLDS will also assist in performing necessary hypothetical analysis.

Data Requirements:

Detail Level: Aggregated at the
Loan Program Level

Driving Entity: Multiple

History: All Aid Received

Frequency of Use: Daily/On Demand

Freshness of Data: No more than 1 quarter old